GAINSCO INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2018 and 2017

(With Independent Auditor’s Report Thereon)

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Independent Auditor's Report

The Board of Directors
GAINSCO, INC.
Dallas, Texas

We have audited the accompanying consolidated financial statements of GAINSCO, INC. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GAINSCO, INC. and its subsidiaries as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA LLP

Dallas, Texas
May 2, 2019

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(Amounts in thousands, except share data)

Assets		2018	2017
Investments (notes 1, 2 and 3):			
Bonds, available for sale – at fair value (amortized cost: $220,714 – 2018, $181,235 – 2017)	$	216,316	180,364
Preferred stocks, available for sale – at fair value (cost: $13,245 – 2018, $8,372 – 2017)		12,667	8,682
Common stocks, available for sale – at fair value (cost: $12,010 – 2018, $9,568 – 2017)		10,695	11,650
Certificates of deposit – at cost, which approximates fair value (amortized cost: $100 – 2017)		-	100
Other long-term investments – cost method (which approximates cost)		10,727	12,368
Short-term investments – at fair value (amortized cost: $26,087 – 2018, $46,395 – 2017)		26,076	46,375
Total investments		276,481	259,539
Cash		1,135	962
Accrued investment income (note 1)		2,084	1,767
Premiums receivable (net of allowance for doubtful accounts: $1,034 – 2018, $1,063 – 2017) (note 1)		78,914	67,164
Finance receivables (net of allowance for doubtful accounts: $0 – 2018 and 2017) (note 1)		1,531	1,546
Deferred policy acquisition costs (note 1)		14,738	12,079
Ceded unpaid claims and claim adjustment expenses (notes 1 and 8)		-	57
Property and equipment (net of accumulated depreciation and amortization: $16,907 – 2018, $15,430 – 2017) (notes 1 and 4)		16,051	12,674
Auto vehicle inventory (notes 1 and 5)		6,799	9,959
Deferred Federal income taxes (notes 1 and 6)		4,685	2,976
Other assets		4,089	3,589
Intangible assets (notes 1 and 7)		1,500	2,993
Goodwill – insurance operations (notes 1 and 7)		609	609
Total assets	$	408,616	375,914

(Continued)

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(Amounts in thousands, except share data)

Liabilities and Shareholders' Equity		2018	2017
Liabilities:			
Unpaid claims and claim adjustment expenses (notes 1 and 8)	$	110,008	94,487
Unearned premiums (note 1)		89,601	77,617
Accounts payable		23,024	18,869
Note payable (note 10)		7,416	-
Vehicle floor plan payable (notes 1 and 5)		7,058	10,060
Subordinated debentures (note 11)		43,000	43,000
Mortgage loan payable (note 12)		4,757	5,041
Current Federal income taxes (notes 1 and 6)		1,501	1,842
Other liabilities		15,024	13,484
Cash overdraft		4,486	4,112
Total liabilities		305,875	268,512
Commitments and contingencies (notes 5, 9, 10, 11, 12, 15, 16 and 17)			
Shareholders' Equity (notes 13 and 14):			
Common stock ($.10 par value, 12,500,000 shares authorized, 4,785,156 shares issued and outstanding at December 31, 2018, 5,560,232 shares issued and 5,078,114 shares outstanding at December 31, 2017)		478	556
Additional paid-in capital		95,514	121,673
Accumulated earnings (deficit)		11,727	(8,482)
Accumulated other comprehensive (loss) income (notes 2 and 3)		(4,978)	1,186
Treasury stock, at cost (482,118 shares at December 31, 2017) (notes 1 and 13)		-	(7,531)
Total shareholders' equity		102,741	107,402
Total liabilities and shareholders' equity	$	408,616	375,914

See accompanying notes to consolidated financial statements.

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2018 and 2017

(Amounts in thousands, except per share data)

		2018	2017
Revenues:			
Net premiums earned (notes 1 and 9)	$	325,619	274,041
Net investment income (note 2)		8,508	6,831
Realized investment gains (losses) (note 2 and 3), net:			
Other-than-temporary impairment losses		(860)	-
Other realized investment gains, net		1,799	531
Total realized investment gains, net		939	531
Agency revenues (note 1)		14,405	12,643
Gross auto sales (note 1)		42,827	39,450
Other revenue, net (note 1)		1,244	764
Total revenues		393,542	334,260
Expenses:			
Claims and claim adjustment expenses (notes 1, 8 and 9)		209,574	179,181
Policy acquisition costs (note 1)		46,466	39,364
Underwriting and operating expenses		69,579	56,599
Cost of auto sales (note 1)		38,243	35,744
Interest expense, net (notes 10 and 11)		3,041	2,422
Total expenses		366,903	313,310
Income before Federal income taxes		26,639	20,950
Federal income taxes (notes 1 and 6):			
Current expense		6,501	3,994
Deferred expense		(71)	5,264
Total income tax expense		6,430	9,258
Net income	$	20,209	11,692
Income per common share (notes 1, 13 and 14):			
Basic	$	4.05	2.34
Diluted	$	4.05	2.34
Weighted average common shares outstanding (notes 13 and 14):			
Basic		4,988	5,005
Diluted		4,988	5,005

See accompanying notes to consolidated financial statements.

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years ended December 31, 2018 and 2017

(Amounts in thousands)

		2018	2017
Net income	$	20,209	11,692
Other comprehensive (loss) income before tax:			
Unrealized (losses) gains on investments:			
Unrealized holding (losses) gains arising during the period		(6,864)	5,121
Less: Reclassification adjustments for realized losses included in net income		(939)	(531)
Unrealized (losses) gains on investments, net		(7,803)	4,590
Other comprehensive (loss) income, before tax	$	(7,803)	4,590
Income tax expense related to components of other comprehensive (loss) income		1,639	(1,365)
Other comprehensive (loss) income, net of tax		(6,164)	3,225
Comprehensive income	$	14,045	14,917

See accompanying notes to consolidated financial statements.

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

Years ended December 31, 2018 and 2017

(Amounts in thousands)

		2018	2017
Common Stock:			
Balance at beginning of year	$	556	538
Stock issuance		21	18
Treasury stock cancellation		(99)	-
Balance at end of year	$	478	556
Additional paid-in capital:			
Balance at beginning of year	$	121,673	126,272
Shareholder dividend		(10,582)	(7,617)
Stock issuance		(21)	(18)
Stock-based compensation expense		4,526	3,036
Treasury stock cancellation		(20,082)	3,036
Balance at end of year	$	95,514	121,673
Accumulated deficit:			
Balance at beginning of year	$	(8,482)	(20,174)
Net income		20,209	11,692
Balance at end of year	$	11,727	(8,482)
Accumulated other comprehensive loss:			
Balance at beginning of year	$	1,186	(2,039)
Other comprehensive income		(6,164)	3,225
Balance at end of year	$	(4,978)	1,186
Treasury stock:			
Balance at beginning of year	$	(7,531)	(7,531)
Stock repurchase		(12,650)	-
Treasury stock cancellation		20,181	-
Balance at end of year		-	(7,531)
Total shareholders' equity end of year	$	102,741	107,402

See accompanying notes to consolidated financial statements.

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2017

(Amounts in thousands)

		2018	2017
Cash flows from operating activities:			
Net income	$	20,209	11,692
Charges (credits) to reconcile net income to cash provided from (used for) operations:			
Depreciation and amortization		4,512	4,838
Impairment of intangible assets		1,493	-
Other-than-temporary impairment of investments		860	-
Non-cash compensation expense		4,526	3,036
Realized gains (excluding other-than-temporary impairments)		(1,799)	(531)
Loss on sale of property and equipment		95	321
Deferred Federal income tax expense		(71)	5,264
Other operating items:			
Net change in deferred acquisition costs		(2,659)	(2,517)
Net change in unearned premiums		11,984	13,185
Net change in other assets and liabilities, net of assets acquired:			
Accrued investment income		(317)	(116)
Premiums receivable		(11,750)	(11,402)
Finance receivables		15	573
Ceded unpaid claims and claim adjustment expenses		57	(57)
Auto vehicle inventory		3,160	(1,819)
Other assets		(572)	(591)
Unpaid claims and claim adjustment expenses		15,521	10,912
Accounts payable		4,155	4,501
Other liabilities		1,540	4,265
Current Federal income taxes		(341)	1,470
Net cash provided by operating activities	$	50,618	43,024

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GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2017

(Amounts in thousands)

		2018	2017
Cash flows from investing activities:			
Bonds available for sale:			
Sold	$	15,076	19,827
Matured		19,068	18,536
Purchased		(76,199)	(62,823)
Certificates of deposit:			
Matured		100	100
Purchased		-	(100)
Preferred stocks sold		1,000	1,697
Preferred stocks purchased		(5,869)	(5,290)
Common stocks sold		342	73
Common stocks purchased		(2,942)	(3,580)
Other long-term investments sold		3,801	1,346
Net change in short-term investments		(20,246)	(5,783)
Property and equipment sold		(95)	(321)
Property and equipment purchased		(6,246)	(3,484)
Net cash used in investing activities		(31,718)	(39,802)
Cash flows from financing activities:			
Principal payment on note payable		(5,233)	(3,000)
Draw on note payable		12,649	3,000
Proceeds from floor plan financing		30,530	32,089
Repayments on floor plan financing		(33,531)	(29,798)
Principal payment on mortgage loan		(284)	(284)
Purchase of treasury shares		(12,650)	-
Shareholder dividend		(10,582)	(7,617)
Net change in cash overdraft		374	2,524
Net cash used in financing activities		(18,727)	(3,086)
Net change in cash during the period		962	136
Cash balance at beginning of year		173	826
Cash balance at end of year	$	1,135	962

Supplemental disclosures of cash flow information:
$3,073 and $2,454 in interest was paid during 2018 and 2017, respectively (notes 10 and 11).
$6,842 and $2,527 in net income tax payments were made during 2018 and 2017, respectively (note 6).

See accompanying notes to consolidated financial statements.

(1) Background and Summary of Significant Accounting Policies

(a) Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Gainsco, Inc. ("GANS," "our," "us" or "we") and its wholly-owned subsidiaries (collectively, the "Company" or "we"), MGA Insurance Company, Inc. ("MGA"), National Specialty Lines, Inc. ("NSL"), BSAG, Inc., Bob Stallings Car Rental, Inc., First Win Automotive, Inc., Gainsco Automotive Holdings Corp., Stallings Auto Group, Inc. ("SAG"), Bob Stallings Hyundai, Inc. ("BSHI"), Red Dragon Properties I, Inc. (collectively, the "Auto Group"), GAINSCO Service Corp., GAINSCO/Bob Stallings Racing, Inc. and Gainsco Auto Insurance Agency, Inc. MGA has one wholly owned subsidiary, MGA Agency, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements included herein have been prepared by GANS, on the basis of accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Nature of Operations

The Company's nonstandard personal auto products are primarily aligned with customers seeking to purchase basic coverage and limits of liability required by statutory requirements, or slightly higher. Our products include coverage for third party liability, for bodily injury and property damage, as well as collision and comprehensive coverage for theft, physical damage and other perils for an insured's vehicle. Within this context, we offer our products to a wide range of customers who present varying degrees of potential risk to the Company, and we strive to price our products to reflect this range of risk accordingly, in order to earn an underwriting profit. Simultaneously, when actuarially prudent, we attempt to position our product pricing to be competitive with other companies offering similar products to optimize our likelihood of securing our targeted customers. We offer flexible premium down payment, installment payment, late payment, and policy reinstatement plans that we believe help us secure new customers and retain existing customers, while generating an additional source of income from fees that we charge for those services. We primarily write six-month policies in Arizona, New Mexico, Oklahoma, Texas and Utah, with both six month and one year policies in Florida, Georgia, South Carolina, Tennessee and Virginia. The terms of policies we are permitted to offer varies in the states in which we operate.

GANS expects to use cash during the next twelve months primarily for: (1) interest on the Subordinated debentures and the credit agreement, (2) administrative expenses and (3) investments. The primary sources of cash to meet these obligations are assets held by GANS, dividends from its subsidiaries and the ability to draw from its $20.0 million bank credit agreement that was renewed in December 2018 and now has a maturity date of December 2020. GANS believes the cash available from its short-term investments, dividends from its subsidiaries and advances from its $20.0 million bank credit agreement should be sufficient to meet its expected obligations for the next twelve months.

(c) Investments

The Company did not hold any held-to-maturity investment securities during 2018 and 2017. Investments classified as available-for-sale securities include debt and equity securities that are not classified as held-to-maturity or as trading security investments and are carried at fair value with unrealized holding gains and losses excluded from earnings and reported as a separate component of shareholders' equity, namely, "Other Comprehensive Income." Other long-term investments in partnerships or limited liability companies are recorded under the cost method of accounting.

Investments are stated at fair value and are based on prices quoted in the most active market for each security, the fair value of comparable securities, discounted cash flow models or similar methods. Premiums and discounts on mortgage-backed and asset-backed securities are amortized over a period based on estimated future principal payments, including prepayments. Prepayment assumptions are reviewed periodically and adjusted to reflect actual prepayments and changes in expectations. The most significant determinants of prepayments are the difference between interest rates on the underlying mortgages, or underlying securities, and the current mortgage loan rates and the structure of the security. Other factors affecting prepayments include the size, type and age of underlying mortgages, the geographic location of the mortgaged properties and the credit worthiness of the borrowers. Variations from anticipated prepayments will affect the life and yield of these securities.

Investment securities are exposed to a number of factors, including general economic and business environment, changes in the credit quality of the issuer of the fixed income securities, changes in market conditions or disruptions in particular markets, changes in interest rates, or regulatory changes. Fair values of securities fluctuate based on the magnitude of changing market conditions. The Company's securities are issued by domestic entities and are backed either by collateral or the credit of the underlying issuer. Factors such as an economic downturn, disruptions in the credit markets, a regulatory change pertaining to the issuer's industry, deterioration in the cash flows or the quality of assets of the issuer, or a change in the issuer's marketplace may adversely affect the Company's ability to collect principal and interest from the issuer. Both equity and fixed income securities have been affected over the past several years, and may be affected in the future, by significant external events. Credit rating downgrades, defaults, and impairments may result in write-downs in the value of the investment securities held by the Company. The Company regularly monitors its portfolio for pricing changes, which might indicate potential impairments, and performs reviews of securities with unrealized losses. In such cases, changes in fair value are evaluated to determine the extent to which such changes are attributable to (i) fundamental factors specific to the issuer, such as financial conditions, business prospects or other factors, or (ii) market-related factors, such as interest rates. When a security in the Company's investment portfolio has an unrealized loss in fair value that is deemed to be other than temporary, the Company reduces the book value of such security to its current fair value, recognizing the credit related decline as a realized loss in the Consolidated Statements of Operations and a revised GAAP cost basis for the security is established.

For fixed maturity securities that are other-than-temporarily impaired, the Company assesses its intent to sell and the likelihood of being required to sell the security before recovery of its amortized cost. If a fixed maturity security is considered other-than-temporarily impaired ("OTTI"), but the Company does not intend to and is not more than likely to be required to sell the security prior to its recovery to amortized cost, the amount of the impairment is separated into a credit loss component and the amount due to all other factors. The credit loss component of an impairment charge on a fixed maturity security is determined by the excess of the amortized cost over the present value of the expected cash flows. The present value is determined using the best estimate of cash flows discounted at (1) the effective interest rate implicit at the date of acquisition for non-structured securities or (2) the book yield for structured securities. The techniques and assumptions for determining the best estimate of cash flows varies depending on the type of security. The credit loss component of an impairment charge is recognized in net earnings while the non-credit component is recognized in accumulated other comprehensive loss, a component of shareholders' equity.

Accrued investment income is the interest earned on securities which has been recognized in the results of operations, but the cash has not been received from the various security issuers. This accrual is based on the terms of each of the various securities and uses the 'effective interest method' for amortizing the premium and accruing the discount. Realized gains (losses) on securities are computed based upon the "specific identification" method on trade date and includes write-downs on securities considered to have other than temporary declines in fair value. Dividends on preferred and common stocks are recorded as investment income on the ex-dividend date with a corresponding receivable to be extinguished upon receipt of cash.

(d) Deferred Policy Acquisition Costs and Policy Acquisition Costs

Deferred policy acquisition costs ("DAC") are principally commissions, premium taxes and underwriting expenses which are deferred. The Company defers direct incremental costs associated with successful insurance contract acquisitions. Policy acquisition costs are principally commissions, premium taxes, marketing and underwriting expenses and the change in deferred policy acquisition costs that are charged to operations over the period in which the related premiums are earned. The Company utilizes investment income when assessing recoverability of deferred policy acquisition costs. A premium deficiency and a corresponding charge to income is recognized if the sum of the expected claims and claim adjustment expenses ("CAE"), unamortized acquisition costs and maintenance costs exceeds related unearned premiums and anticipated investment income. At December 31, 2018 and 2017, there was no premium deficiency that was required to be recognized.

Information relating to these net deferred amounts, as of and for the years ended December 31, 2018 and 2017 is summarized as follows:

		2018	2017
		(Amounts in thousands)	
Asset balance, beginning of period	$	12,079	9,562
Deferred commissions		39,871	32,971
Deferred premium taxes and marketing expenses		11,799	9,777
Amortization		(49,011)	(40,231)
Net change		2,659	2,517
Asset balance, end of period	$	14,738	12,079

(e) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets (leasehold improvements are amortized over the terms of the lease and primarily three years for furniture and equipment). Computer software costs relating to programs for internal use are recorded in property and equipment and are amortized using the straight-line method over three years or the estimated useful life, whichever is longer.

Costs associated with software developed or purchased for internal use are capitalized based on FASB ASC 350-40, *Intangibles – Goodwill and Other – Internal-use Software*, and other related guidance. Capitalized costs include external direct costs of materials and services consumed in developing or obtaining internal-use software. Costs incurred in development and enhancement of software that do not meet the capitalization criteria, such as costs of activities performed during the preliminary and post-implementation stages, are expensed as incurred. The Company reviews any impairment of the capitalized costs on a periodic basis. The Company amortizes such costs over the estimated useful life of the software, which is three years once the software has been placed in service.

(f) Auto Vehicle Inventory

Auto vehicle inventory consists of new, used and demonstrator automobiles sold to consumers. Vehicles acquired are carried at lower of cost-or-market. Cost is computed as amortized cost less manufacturer incentives.

(g) Federal Income Taxes

The Company and its subsidiaries file a consolidated Federal income tax return. Deferred income tax items are accounted for under the "asset and liability" method which provides for temporary differences between the reporting of earnings for financial statement purposes and for tax purposes, primarily deferred policy acquisition costs, the discount on unpaid claims and claim adjustment expenses, net operating loss carryforwards and the nondeductible portion of the change in unearned premiums. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment dates.

The Company currently has no valuation allowance for any temporary differences. ASC 740-10, *Income Taxes – Overall* ("ASC 740-10") requires positive evidence, such as cumulative taxable income over the most recent three-year period and other available objective and subjective evidence, for management to conclude that it is "more likely than not" that a portion or all of the deferred tax assets will be realized. While both objective and subjective evidence are considered, it is the Company's understanding that objective evidence should generally be given more weight in the analysis under ASC 740-10. In making the determination, the Company considered all available evidence, including the fact that the Company generated cumulative taxable income for the three years ended December 31, 2018. The Company does not record a tax valuation allowance relating to the tax effect of net unrealized losses on investments, excluding equity securities, because it is more likely than not that these losses would reverse or be utilized in future periods. The Company has the ability and it is the Company's intent to fully recover the principal, which could require the Company to hold these securities until their maturity; therefore, the Company considers the impairment to be temporary – see note 6.

We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which we expect to recover or settle those temporary differences. Should a change in tax rates occur, we recognize the effect on deferred tax assets and liabilities in operations in the period that includes the enactment date. We reflected the impact of the Tax Cuts and Jobs Act (2017 Tax Act) in the fourth quarter of 2017, the period when the legislation was enacted.

The Company previously adopted the provisions of ASC 740, *Income Taxes – Overall – Transition and Open Effective Date Information* ("ASC 740-10-65"). At December 31, 2018, the Company has not identified any material uncertain tax positions in accordance with ASC 740-10-25. The Company is subject to U.S. federal income tax examinations by tax authorities for 2001 and subsequent years.

(h) Goodwill and Intangible Assets

The excess of the purchase price of NSL over the fair value of net tangible assets acquired was recorded as goodwill, and was attributed to the Southeast Region reporting unit.

The excess of the purchase price of the acquired net tangible assets from the Hyundai auto dealership by the Company's subsidiary, SAG, is recorded as intangible assets and was attributed to the Auto Group reporting unit subject to an annual impairment test.

In accordance with ASC 350-20, *Intangibles – Goodwill and Other – Goodwill*, goodwill is not amortized but rather is subject to a qualitative assessment of events or factors to determine if the annual two-step test of goodwill impairment to be performed. We performed our annual goodwill impairment testing as of December 31 for the reporting units. Under the first step, if the fair value of any reporting unit is less than the carrying value, an indication goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test. In the second step, we compare the goodwill amount reflected in the balance sheet to the implied fair value of the reporting unit's goodwill.

The implied fair value of the goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a variety of methods, including a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

(i) Claims and Claim Adjustment Expenses

An insurance company generally makes claim payments as a result of accidents involving the risks insured under the insurance policies it issues. Months and sometimes years may elapse between the occurrence of an accident, reporting of the accident to the insurer and payment of the claim. Insurers record a liability for estimates of claims that will be paid for accidents reported to them, which are referred to as “case reserves.” In addition, because accidents are not always reported promptly upon occurrence and because the assessment of existing known claims may change over time with the development of new facts, circumstances and conditions, insurers estimate liabilities for such items, which are referred to as incurred but not reported (“IBNR”) reserves.

The Company establishes claims and claim adjustment expense (“CAE”) reserves that are estimates of amounts needed to pay claims and related expenses in the future for insured events that have already occurred. The process of estimating reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain.

Claims and CAE reserves are typically comprised of (1) case reserves for claims reported and (2) IBNR reserves, which include a provision for expected future development on case reserves and for losses that have occurred but for which claims have not yet been reported. Case reserves are estimated based on the experience and knowledge of claims staff regarding the nature and potential cost of each claim and are adjusted as additional information becomes known or payments are made. Actuaries estimate ultimate Claims and CAE using various generally accepted actuarial methods applied to known losses and other relevant information. IBNR reserves are the difference between estimates of ultimate Claims and CAE and case incurred Claims and CAE. Like case reserves, IBNR reserves are adjusted as additional information becomes known or payments are made.

Ultimate claims and CAE are generally determined by extrapolation of claim emergence and settlement patterns observed in the past that can reasonably be expected to persist into the future. In forecasting ultimate claims and CAE with respect to any line of business, past experience with respect to that line of business is the primary resource, but cannot be relied upon in isolation. The Company's own experience, particularly claims development experience, such as trends in case reserves, payments on and closings of claims, as well as changes in business mix and coverage limits, is the most important information for estimating its reserves. External data, available from organizations such as statistical bureaus, consulting firms and reinsurance companies, is sometimes used to supplement or corroborate management's own experience.

Uncertainties in estimating ultimate claims and CAE are magnified by the time lag between when a claim actually occurs and when it is reported and eventually settled. If management determines that an adjustment is appropriate, the adjustment is booked in the accounting period in which such determination is made. Accordingly, should reserves need to be increased or decreased in the future from amounts currently established, future results of operations would be negatively or positively impacted.

The Company's actuary uses several generally accepted actuarial methods to evaluate its Claims and CAE reserves, each of which has its own strengths and weaknesses. Management places more or less reliance on a particular method based on the facts and circumstances at the time the reserve estimates are made. These methods generally fall into one of the following categories or are hybrids of one or more of the following categories:

- Historical paid Claims and CAE development methods – These methods use historical Claims and CAE payments over discrete periods of time to estimate future Claims and CAE. Historical paid Claims and CAE development methods assume that the ratio of Claims and CAE paid in one period to Claims and CAE paid in an earlier period will remain constant.
- Historical incurred Claims and CAE development methods – These methods, like historical paid Claims and CAE development methods, assume that the ratio of Claims and CAE in one period to Claims and CAE in an earlier period will remain constant in the future. However, instead of using paid Claims and CAE, these methods use incurred Claims and CAE (i.e., the sum of cumulative historical Claims and CAE payments plus outstanding case reserves) over discrete periods of time to estimate future Claims and CAE.
- Expected Claims and CAE ratio methods – These methods are based on the assumption that ultimate Claims and CAE vary proportionately with premiums. Expected Claims and CAE ratios are typically developed based upon the information used in pricing, and are multiplied by the total amount of premiums earned to calculate ultimate Claims and CAE.

- Bornhuetter-Ferguson methods – These methods are a blend of the expected Claims and CAE ratio and Claims and CAE development methods. The percent of incurred (or paid) Claims and CAE to ultimate Claims and CAE implied by the selected development pattern from the incurred (or paid) Claims and CAE development method is used to determine the percentage of ultimate Claims and CAE yet to be developed.

The Company performs an actuarial review of its recorded reserves each quarter. As part of that review, the Company's actuary compares the previous quarter's projections of incurred, paid and case reserve activity, including amounts incurred but not reported, to amounts experienced in the quarter. Differences between previous estimates and actual experience are evaluated to determine whether a given actuarial method for estimating claims and CAE should be relied upon to a greater or lesser extent than it had been in the past. While some variance is expected each quarter due to the inherent uncertainty in claims and CAE, persistent or large variances would indicate that prior assumptions and/or reliance on certain reserving methods may need to be revised going forward. Upon completion of each quarterly review, the carried reserves are booked to the reserve levels as indicated by the Company's actuary.

The process of establishing claims reserves is imprecise and reflects significant judgmental factors. In many liability cases, significant periods of time, ranging up to several years or more, may elapse between the occurrence of an insured claim and the settlement of the claim. The actual emergence of claims and CAE may vary, perhaps materially, from the Company's estimates thereof, because (a) estimates of liabilities are subject to large potential revisions, as the ultimate disposition of claims incurred prior to the financial statement date, whether reported or not, is subject to the outcome of events that have not yet occurred (e.g., jury decisions, court interpretations, legislative changes (even after coverage is written and reserves are initially set) that broaden liability and policy definitions and increase the severity of claims obligations, changes in the medical condition of claimants, public attitudes and social/economic conditions such as inflation), (b) estimates of claims do not make provision for extraordinary future emergence of new classes of claims or types of claims not sufficiently represented in the Company's historical data base or which are not yet quantifiable, and (c) estimates of future costs are subject to the inherent limitation on the ability to predict the aggregate course of future events.

As the underlying processes require the use of estimates and professional actuarial judgment, establishing claims reserves is an inherently uncertain process. As our experience develops and we learn new information, our quarterly reserving process may produce revisions to our previously reported claims reserves, which we refer to as "development," and such changes may be material. We recognize favorable development when we decrease our previous estimate of ultimate losses, which results in an increase in net income in the period recognized. We recognize unfavorable development when we increase our previous estimate of ultimate losses, which results in a decrease in net income in the period recognized. Accordingly, while we record our best estimate, our claims reserves are subject to potential variability.

(j) Vehicle Floor Plan Payable

Our consumer lending offerings consist of floor plan notes, which are loans to finance the purchase of auto vehicle inventory, also known as wholesale or inventory financing, as well as dealer loans, which are loans to finance improvements to dealership facilities, to provide working capital, and to purchase and/or finance dealership real estate – see note 5.

(k) Debt

Our debt consists of borrowings under a credit agreement with a commercial bank and subordinated debentures. The credit loan borrowings and subordinated debentures are carried at principal amount borrowed – see notes 10 and 11.

(l) Mortgage Loan

The mortgage loan was converted from a construction loan under a loan agreement with a commercial bank. The lending was to finance the purchase of the land, building costs and certain building related costs paid outside of the construction contract. Upon completion of the building the loan was converted into a mortgage with principal and interest due quarterly. The loan balance is carried at the outstanding principal balance at December 31, 2018 – see note 12.

(m) Treasury Stock

The Company records treasury stock in accordance with the "cost method" described in ASC 505-30, *Equity – Treasury Stock* ("ASC 505-30") – see note 13 for further discussion.

(n) Premium Revenues and Premium Receivables

Premiums and policy fees are recognized as earned on a pro rata basis over the period the Company is at risk under the related policy. Agency revenues are primarily fees charged on insureds' premiums due. These fees are earned over the terms of the underlying policies. Unearned premiums represent the portion of premiums written and policy fees which are applicable to the unexpired terms of policies in force. Premiums receivable consist of balances owed for coverages written with the Company. The Company's allowance for doubtful accounts consists of all premiums receivables over thirty days past due.

(o) Gross Auto Sales, Cost of Auto Sales, and Finance Receivables

Gross auto sales consist of sales of new and used vehicles, sales of parts and automotive services by our subsidiary BSHI. Cost of auto sales consist of vehicle procurement expenses, reconditioning expenses, auction fees and transportation to the dealership. We recognize revenue and expense associated with car sales in the period in which products are sold and delivered or services are provided. The automotive services we provide include, but are not limited to, customer-paid repairs and maintenance, as well as repairs and maintenance under manufacturer warranties and extended service contracts. Our finance receivables consists of smaller-balance, homogeneous loans carried at amortized cost, net of allowance for loan losses. We use a combination of forecasting methodologies to determine the allowance for loan losses. Contracts-in-transit primarily represent receivables from financial institutions for the portion of the vehicle sales price financed by our customers.

(p) Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash, receivables, payables and debt instruments. The carrying values of these financial instruments approximate their respective fair values as they are either short-term in nature or carry interest rates which vary with the market. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(q) Earnings Per Share

Earnings per share ("EPS") for the years ended December 31, 2018 and 2017 is based on a weighted average of the number of common shares outstanding during each year – see note 14. Basic and diluted EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period.

(r) Accounting Pronouncements

Recently Adopted Policies

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* ("ASC 230"), which addresses the classification and presentation of certain items, including debt prepayment and extinguishment costs, contingent consideration payments made after a business combination and distributions received from equity method investees, for which there was diversity in practice. We adopted the guidance as of December 31, 2018. The adoption did not have any impact on the Company's consolidated statement of cash flows.

Pending Policies

We have evaluated recent accounting pronouncements that have had or may have a significant effect on our financial statements or on our disclosures.

In March 2017 the FASB issued ASU No. 2017-08, *Receivables-Nonrefundable Fees and Other Costs (Subtopic 210-20), Premium Amortization on Purchased Callable Debt Securities* (ASU 2017-08). The guidance amends the amortization period for certain purchased callable debt securities held at a premium. Securities that contain explicit, noncontingent call features that are callable at fixed prices and on preset dates should shorten the amortization period for the premium to the earliest call date (and if the call option is not exercised, the effective yield is reset using the payment terms of the debt security). The standard is effective for fiscal years beginning after December 15, 2019 and interim periods within those years beginning after December 15, 2020, and is to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings. We do not expect the adoption of this standard to have a material impact on our financial condition or results of operations.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (ASU 2017-04). This update simplifies the manner in which an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. ASU 2017-07 is effective for annual periods beginning after December 15, 2021, including interim periods within those annual periods, with early adoption permitted for certain requirements. We do not intend to early adopt and are assessing the impact of adopting this new accounting standard on our consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (“ASC 326”), which establishes new guidance for the recognition of credit losses for financial assets measured at amortized cost. The new ASU, which applies to financial assets that have the contractual right to receive cash requires reporting entities to estimate the credit losses expected over the life of a credit exposure using historical information, current information and reasonable and supportable forecasts that affect the collectability of the financial asset. The types of assets included in the scope of the new guidance includes premium receivables, reinsurance recoverables and loans. ASU 2016-13 is effective for annual periods beginning after December 15, 2020 and interim periods within those fiscal years beginning after December 15, 2021, with early adoption permitted. The Company measures financial assets at fair value with changes therein recognized in current period earnings and accordingly, does not expect adoption to have a significant impact on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). This update is intended to replace existing lease guidance by requiring a lessee to recognize substantially all leases (whether operating or finance leases) on the balance sheet as a right-of-use asset and an associated lease liability. Short-term leases of 12 months or less are excluded from this amendment. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years beginning after December 15, 2020, with early adoption permitted. We do not intend to early adopt and are assessing the impact of adopting this new accounting standard on our consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). This update substantially revises standards for the recognition, measurement and presentation of financial instruments. This standard revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. ASU 2016-01 is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods beginning after December 15, 2019, with early adoption permitted for certain requirements. We are assessing the impact of adopting this new accounting standard on our consolidated financial statements and related disclosures. We currently record equity securities at fair value and as of December 31, 2018, we have $1.5 million net unrealized losses, net of taxes, recognized as a component of other comprehensive income.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). Insurance contracts have been excluded from the scope of this guidance. In August 2015, the FASB issued ASU 2015-14 to defer the effective date for fiscal years beginning after December 15, 2017, to fiscal years beginning after December 15, 2018. Under the standard, guidance is provided on revenue recognition for entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets. The transaction price is attributed to underlying performance obligations in the contract and revenue is recognized as the entity satisfies the performance obligation and transfers control of the good or service to the customer. We do not intend to early adopt and note that the standard is not applicable to our insurance contracts or other revenue streams. The adoption of this new accounting standard does not have a material impact on our consolidated financial statements and related disclosures.

All other codified accounting standards and interpretations of those standards issued during 2018 did not relate to accounting policies and procedures pertinent to the Company at this time.

(s) Reclassifications

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications had no material effect on total assets, total liabilities, total shareholders' equity, net income or net cash provided by operating activities as previously reported.

(2) Investments

The following table summarizes the components of net investment income:

		Years ended December 31,	
		2018	2017
		(Amounts in thousands)	
Fixed maturities	$	6,284	5,460
Preferred stocks		804	456
Common stocks		807	621
Other long-term investments		341	203
Short-term investments		534	387
		8,770	7,127
Investment expenses		(262)	(296)
Net investment income	$	8,508	6,831

The following tables summarize the amortized cost and estimated fair values of investments:

		December 31, 2018				
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other-than-temporary impairments in AOCI (1)
		(Amounts in thousands)				
Bonds, available for sale:						
U.S. Treasury	$	6,475	-	(134)	6,341	-
U.S. Government agencies		2,000	-	(15)	1,985	-
Corporate bonds		210,867	222	(4,458)	206,631	(860)
Asset-backed		891	-	(2)	889	-
Mortgage-backed		481	1	(12)	470	-
Preferred stocks, available for sale		13,245	236	(814)	12,667	-
Common stocks, available for sale		12,010	-	(1,315)	10,695	-
Other long-term investments		10,727	-	-	10,727	-
Short-term investments		26,087	6	(17)	26,076	-
Total investments	$	282,783	465	(6,767)	276,481	(860)

(1) Represents the amount of other-than-temporary impairment losses in "Accumulated other comprehensive income" or "AOCI" which, from January 1, 2009, were not included in earnings under ASC 320-10-65.

		December 31, 2017				
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other-than-temporary impairments in AOCI (1)
		(Amounts in thousands)				
Bonds, available for sale:						
U.S. Treasury	$	6,467	-	(92)	6,375	-
U.S. Government agencies		3,000	-	(25)	2,975	-
Corporate bonds		167,579	831	(1,559)	166,851	-
Asset-backed		1,557	-	(2)	1,555	-
Mortgage-backed		2,632	1	(25)	2,608	-
Preferred stocks, available for sale		8,372	388	(78)	8,682	-
Common stocks, available for sale		9,568	2,210	(128)	11,650	-
Certificates of deposit		100	-	-	100	-
Other long-term investments		12,368	-	-	12,368	-
Short-term investments		46,395	-	(20)	46,375	-
Total investments	$	258,038	3,430	(1,929)	259,539	-

(1) Represents the amount of other-than-temporary impairment losses in "Accumulated other comprehensive income" or "AOCI" which, from January 1, 2009, were not included in earnings under ASC 320-10-65.

The following tables summarize the gross unrealized losses showing the length of time that investments have been continuously in an unrealized loss position as of December 31, 2018 and 2017:

		December 31, 2018					
		Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Amounts in thousands)					
U.S. Treasury	$	-	-	6,341	134	6,341	134
U.S. Government agencies		-	-	984	15	984	15
Corporate bonds		85,019	1,239	94,175	3,219	179,194	4,458
Asset-backed		-	-	889	2	888	2
Mortgage-backed		-	-	418	12	419	12
Preferred stocks		4,726	487	1,805	327	6,531	814
Common stocks		10,628	1,294	67	21	10,695	1,315
Short-term investments		8,556	17	-	-	8,556	17
Total investments	$	108,929	3,037	104,679	3,730	213,608	6,767

		December 31, 2017					
		Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Amounts in thousands)					
U.S. Treasury	$	4,923	44	1,452	48	6,375	92
U.S. Government agencies		-	-	2,975	25	2,975	25
Corporate bonds		76,620	603	43,185	956	119,805	1,559
Asset-backed		1,555	2	-	-	1,555	2
Mortgage-backed		-	-	2,548	25	2,548	25
Preferred stocks		1,824	70	230	8	2,054	78
Common stocks		702	128	-	-	702	128
Short-term investments		17,510	20	-	-	17,510	20
Total investments	$	103,134	867	50,390	1,062	153,524	1,929

The gross unrealized losses, shown in the above tables, totaling $3,730,000 and $1,062,000 as of December 31, 2018 and 2017, respectively, relate to 111 and 53 individual securities, respectively, which had been in an unrealized loss position for 12 months or more as of such dates. As of December 31, 2018, approximately 82% of the unrealized gross losses were with issuers rated as investment grade by Standard and Poor's ("S&P"). The decline in market value is primarily related to an increase in market interest rates since purchasing related to policy actions by the Federal Reserve. Another contributing factor has been the persistent low levels of short term interest rates, such as the 3-month London Interbank Offered Rate for U.S. dollar deposits ("LIBOR"), and the related fall in the forward expectations for these short term yields since the time of acquisition of floating rate and "fixed to floating" coupon rate securities. At this time based upon information currently available, the Company has the ability and the intent to hold the securities until it fully recovers the principal, which could require the Company to hold these securities until their maturity; therefore, the Company considers the impairment to be temporary.

In order to determine whether it is appropriate in an accounting period to recognize OTTI with respect to a portfolio security which has experienced a decline in fair value and as to which the Company has the ability and intent to fully recover principal, the Company considers all available evidence and applies judgment. With corporate debt issues, firm specific performance, industry trends, legislative and regulatory changes, government initiatives, and the macroeconomic environment all play a role in the evaluation process. With respect to asset-backed securities (including mortgage-backed securities), the Company uses individual cash flow modeling in addition to other available information. In the case of securities as to which the Company has the ability and intent to fully recover amortized cost, based upon the present value of the principal and interest expected to be received using the current best estimates of material inputs, such as default frequencies, severities, and prepayment speeds, generally no OTTI would be recognized unless other factors suggest that it would be appropriate to do so. The principal factors that the Company considers in this analysis are the extent to which the fair value of the security has declined, the ratings given to the security by recognized rating agencies, trends in those ratings, and information available to the Company from securities analysts and other commentators, public reports and other credible information.

Included in the Company's fixed income portfolio are hybrid securities with a carrying value of $17,582,000 and fair value of $16,190,000 at December 31, 2018. A hybrid security as used here is one where the issuer of the debt instrument can choose to defer payment of the regularly scheduled interest due for a contractually set maximum period of time, usually five to ten years, without being in technical default on the issue.

Preferred stocks consist of an auction preferred instrument considered to be available for sale and reported at estimated fair value with the net unrealized gains or losses reported after-tax as a component of other comprehensive income, along with exchanged traded and over the counter issues of public companies. The auction rate securities which the Company owns are each issued by a trust which holds as an asset the preferred stock of a corporation, which are exchange traded. The Company has the option at stated intervals to redeem the auction preferred shares for a pro rata share of the underlying collateral. As of December 31, 2018, management has not chosen this option as the structure of the trust provides a higher coupon on the auction preferred shares than on the underlying collateral shares; and therefore, are of greater economic value. As of December 31, 2018, management does not believe that any common shares are other-than-temporarily impaired based on the credit review of the issuer.

Common stocks predominately consist of shares of an exchange traded limited liability company, which invests in transportation and infrastructure related assets. This position resulted from the exchange of the Company's ownership in a private limited partnership, previously categorized as Other long-term investments, for these common shares in conjunction with the partnership going public through an initial public offering in 2016. As of December 31, 2018, management does not believe that any underlying shares are other-than-temporarily impaired based on the credit review of the issuer.

Investments in private partnerships or limited liability companies are accounted for under the cost method, which approximates cost. These companies are audited on an annual basis. The Company has classified these investments as Other long-term investments.

Estimated fair value of investments on deposit with various regulatory bodies, as required by law, were $4,365,000 and $4,487,000, at December 31, 2018 and 2017, respectively.

When a security has an unrealized loss in fair value that is deemed to be other than temporary, the Company reduces the carrying value of the security to its current market value, recognizing the decline as a realized loss in the statement of operations. These determinations can reflect the market-related issues associated with a disruption in the credit markets, which can create a significant deterioration in both the valuation of the securities, as well as the Company's view of future recoverability of the valuation decline. Also, if determined that a security is not likely to be held until the full recovery of amortized cost, the carrying value is reduced to the fair value.

As discussed in note 1, a portion of certain OTTI losses on debt securities are recognized in "Other comprehensive income" ("OCI"). The net amount recognized in earnings ("credit loss impairments") represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. Any remaining difference between fair value and amortized cost is recognized in OCI.

Proceeds from the sale of securities for the years ended December 31, 2018 and 2017 are presented in the following table:

		Years ended December 31,	
		2018	2017
		(Amounts in thousands)	
Proceeds:			
Bonds, available for sale	$	14,191	19,609
Bonds, available for sale principal pay downs	$	885	218
Preferred stocks, available for sale	$	1,000	1,697
Common stock, available for sale	$	342	73
Other invested assets	$	3,801	1,346

Realized gains and losses on investments for the years ended December 31, 2018 and 2017 are presented in the following table:

	Years ended December 31,	
	2018	2017
	(Amounts in thousands)	
Realized gains:		
Bonds, available for sale	$ 3	143
Preferred stocks, available for sale	10	-
Common stocks, available for sale	-	100
Other long term investments, cost	2,161	771
Short-term investments	-	1
Total realized gains	2,174	1,015
Realized losses:		
Bonds, available for sale	(194)	(426)
Preferred stocks, available for sale	(7)	(19)
Common stocks, available for sale	(158)	(27)
Short-term investments	(16)	(12)
Total realized losses	(375)	(484)
Other-than-temporary impairment losses	(860)	-
Total realized investment gains, net	$ 939	531

The amortized cost and estimated fair value of debt securities (including bonds available for sale, preferred stocks and certificates of deposit) at December 31, 2018 and 2017, by maturity, are shown below.

	2018		2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Amounts in thousands)			
Due in one year or less	$ 28,305	28,098	20,564	20,559
Due after one year but within five years	169,336	166,646	137,086	136,560
Due after five years but within ten years	4,819	4,693	3,720	3,758
Due after ten years but within twenty years	2,245	2,067	5,184	5,262
Due beyond 20 years	27,882	26,120	18,964	18,844
Asset-backed securities	891	889	1,557	1,555
Mortgage-backed securities	481	470	2,632	2,608
	$ 233,959	228,983	189,707	189,146

The following table summarizes the S&P ratings on the Company's bonds available for sale as of December 31, 2018:

Bonds available for sale	2018
S&P Ratings:	
AA+	6%
AA-	3
A+	6
A	10
A-	9
BBB+	24
BBB	30
BBB-	6
BB and below	6
	100%

The following table sets forth the amount of credit loss impairments on debt securities held by the Company as of December 31, 2018, for which a portion of the OTTI loss was recognized in OCI, and the corresponding changes in such amounts.

		(Amounts in thousands)
Balance, January 1, 2018	$	7,316
Credit losses remaining in accumulated deficit related to adoption of ASC 320-10-65		-
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period		-
Credit loss impairments previously recognized on securities impaired to fair value during the period		-
Credit loss impairments recognized in the current period on securities not previously impaired (1)		860
Additional credit loss impairments recognized in the current period on securities previously impaired		-
Increases due to the passage of time on previously recorded credit losses		-
Balance, December 31, 2018	$	8,176

(1) Represents circumstances where the Company determined in the current period that it intends to sell the security or it is more likely than not that it will be required to sell the security before recovery of the security's amortized cost.

During 2018, the Company wrote down $860,000 in securities that were determined to have had an other-than-temporary decline in fair value. During 2017, the Company had no write downs in securities that were determined to have had an other-than-temporary decline in fair value.

(3) Fair Value Measurements

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in ASC 320-10-65. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the ASC 320-10-65 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Quoted prices in markets that are not active or inputs that are observable directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities other than quoted prices in Level 1; quoted prices in markets that are not active; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and are significant to their fair value of the assets or liabilities. Unobservable inputs reflect the Company's own estimates as to the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models and third-party evaluation, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Valuation of Investments

The Company receives pricing from independent pricing services, and these are compared to prices available from sources accessed through the Bloomberg Professional System. The number of available quotes varies depending on the security, generally management obtains one quote for Level 1 investments, one to three quotes for Level 2 investments and one to two quotes, if available, for Level 3 investments. If there is a material difference in the prices obtained, further evaluation is made. Market prices and valuations from sources such as the Bloomberg system, TRACE and dealer offerings are used as a check on the prices obtained from the independent pricing services. Should a material difference exist, then an internal valuation is made. For purposes of valuing these securities management produces expected cash flows for the security utilizing the standard security modeling capabilities available on the Bloomberg Professional System. The key inputs for mortgage securities are the default rate, severity of default, and voluntary prepayment rate for the underlying mortgage collateral. These are generally based at the start on the actual historical values of these parameters for the prior six months. These cash flows are then discounted by a required yield derived from market based observations of broker inventory offerings, or in some cases Bloomberg Indices of like securities. Management uses this valuation model primarily with mortgage-backed securities where the matrix pricing methodology used by the independent pricing service is too broad in its categorizations. This often involves differences in reasonable prepayment assumptions or significant differences in performance among issuers. In some cases, other external observable inputs such as credit default swap levels are used as input in the fair value analysis.

Fixed Maturities, Equity Securities and Mortgage-backed Instruments – For U. S. Treasury, U. S. government and corporate bonds, the independent pricing services obtain information on actual transactions from a large network of broker-dealers and determine a representative market price based on trading volume levels. For mortgage-backed instruments, the independent pricing services obtain information on actual transactions from a large network of broker-dealers and sorts the information into various components, such as asset type, rating, maturity, and spread to a benchmark such as the U.S. Treasury yield curve. These components are used to create a pricing matrix for similar instruments. All broker-dealer quotations obtained are non-binding.

The Company uses the following hierarchy for each instrument in total invested assets:

1. The Company obtains a price from an independent pricing service.

2. If no price is available from an independent pricing service for the instrument, the Company obtains a market price from a broker-dealer or other reliable source, such as Bloomberg.

3. The Company then validates the price obtained by evaluating its reasonableness. The Company's review process includes quantitative analysis (i.e., credit spreads and interest rate and prepayment fluctuations) and initial and ongoing evaluations of methodologies used by outside parties to calculate fair value and comparing the fair value estimates to its knowledge of the current market. If a price provided by a pricing service is considered to be materially different from the other indications that are obtained, the Company will make a determination of the proper fair value of the instrument based on data inputs available.

In order to determine the proper ASC 320-10-65 classification for each instrument, the Company obtains from its independent pricing service the pricing procedures and inputs used to price the instrument. The Company analyzes this information, taking into account asset type, rating and liquidity, to determine what inputs are observable and unobservable in order to determine the proper ASC 320-10-65 level. For those valued internally, a determination is made as to whether all relevant inputs are observable or unobservable in order to classify correctly.

All of the Company's Level 1 and Level 2 invested assets held were priced using either independent pricing services or available market prices to determine fair value. The Company classifies such instruments in active markets as Level 1 and those not in active markets as Level 2. The Preferred stocks in Level 3 were auction preferred instruments and were classified in Level 3 because the market in which they trade remains very inactive. The Corporate bonds in Level 3 are private placements which rarely trade and the issuers have no other debt outstanding to provide a valuation benchmark.

Corporate Bonds – the fair value is estimated using discounted cash flow analyses by applying the maximum credit utilization schedule set by statute, so the only unobservable input variable is the appropriate market discount rate. The discount rate takes into account general market trends, including inputs from spreads based on U.S. Treasury yield curves in the pricing of the instrument when it was originally issued and considering current yields of like maturities. Due to the short duration of the issue, its sensitivity to the discount rate assumption is minimal.

Preferred Stocks – the security is redeemable upon demand within ten business days into a specific number of shares of the underlying collateral of the issuing trust. The underlying shares form the basis of the fair value determination and thus the Company estimates the fair value using a liquidation value of collateral approach. The collateral is comprised of preferred shares publically traded on the New York Stock Exchange and is used as a direct market observable input. Unobservable inputs consist of short lag time and procedural issues involved in obtaining collateral shares, the liquidity of the underlying shares due to the security being an auction rate security resulting in a slightly higher trading yield. The Company's assumption for the estimate for the auction rate preferred shares is set directly equal to that of the underlying collateral shares for which it could be redeemed.

The quantitative disclosures about the fair value measurements for each major category of assets at December 31, 2018 and 2017 were as follows:

		December 31, 2018	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(Amounts in thousands)		
Assets:					
U.S. Treasury	$	6,341	6,341	-	-
U.S. Government agencies		1,985	-	1,985	-
Corporate bonds		206,631	-	206,631	-
Asset-backed		889	-	889	-
Mortgage-backed		470	-	470	-
Total available-for-sale securities		216,316	6,341	209,975	-
Preferred stocks		12,667	297	6,741	5,629
Common stocks		10,695	10,695	-	-
Short-term investments		26,076	14,477	11,599	-
Total assets classified by ASC 320-10-65(1)	$	265,754	31,810	228,315	5,629
Percentage of total		100%	12%	86%	2%

(1) The investments classified as Other long-term investments are outside the scope of ASC 320-10-65 and, therefore, not disclosed in the table as invested assets classified by ASC 320-10-65.

		December 31, 2017	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Amounts in thousands)			
Assets:					
U.S. Treasury	$	6,375	6,375	-	-
U.S. Government agencies		2,975	-	2,975	-
Corporate bonds		166,851	-	166,851	-
Asset-backed		1,555	-	1,555	-
Mortgage-backed		2,608	-	2,608	-
Total available-for-sale securities		180,364	6,375	173,989	-
Preferred stocks		8,683	4,748	-	3,935
Common stocks		11,650	11,650	-	-
Certificates of deposit		100	100	-	-
Short-term investments		46,375	30,860	15,515	-
Total assets classified by ASC 320-10-65(1)	$	247,172	53,733	189,504	3,935
Percentage of total		100%	22%	77%	1%

(1) The investments classified as Other long-term investments are outside the scope of ASC 320-10-65 and, therefore, not disclosed in the table as invested assets classified by ASC 320-10-65.

Level 1 includes U.S. Treasury securities and exchange-traded securities. Level 2 securities are comprised of securities whose fair value was determined using observable market inputs. Investments classified as Level 3 are primarily comprised of the following: (i) with respect to fixed maturity investments, certain corporation and mortgage-backed securities that values provided by an independent pricing service or quoted market prices were not used, many of which are not publicly traded or are not actively traded; and (ii) with respect to equity securities, preferred securities.

The following table provides a summary of changes in fair value associated with the Level 3 assets for the years ended December 31, 2018 and 2017:

		Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
		December 31,	
		2018	2017
		(Amounts in thousands)	
Beginning balance	$	3,935	3,951
Total gains or losses (realized/unrealized):			
Included in earnings (or changes in net assets)		-	-
Included in other comprehensive loss		(106)	(16)
Purchases, issuances, and settlements, net		1,800	-
Transfers in and/or out of Level 3		-	-
Ending balance	$	5,629	3,935

The above table of Level 3 assets begins with the prior period balance and adjusts the balance for the gains or losses (realized and unrealized) that occurred during the current period. Any new purchases that are identified as Level 3 securities are then added and any sales of securities which were previously identified as Level 3 are subtracted. Next, any securities which were previously identified as Level 1 or Level 2 securities and which are currently identified as Level 3 are added. Finally, securities which were previously identified as Level 3 and which are now designated as Level 1 or as Level 2 are subtracted. The ending balance of the Level 3 securities presented above represent our best estimates and may not be substantiated by comparisons to independent markets and, in many cases, could not be realized in immediate settlement of the instruments.

The Company wrote down Level 2 security totaling $860,000 for the year ended December 31, 2018 that were determined to have had an other-than-temporary credit related impairment charge. The Company had no write downs during 2017 in securities that were determined to have had an other-than-temporary credit related impairment charge.

There were no transfers between Levels 1 and 2 during the periods presented.

(4) Property and Equipment

The following schedule summarizes the components of property and equipment:

		As of and for the years ended December 31	
		2018	2017
		(Amounts in thousands)	
Leasehold improvements	$	2,677	1,777
Land		1,755	1,755
Building		5,243	5,243
Furniture, fixtures and automobiles		6,024	6,752
Equipment		7,783	4,137
Software		9,476	8,440
Accumulated depreciation and amortization		(16,907)	(15,430)
Property and equipment, net	$	16,051	12,674
Depreciation expense	$	2,871	2,687

(5) Inventory and Vehicle Floor Plan Payable

The components of inventory at December 31 are as follows:

		2018	2017
		(Amounts in thousands)	
New/demo vehicles	$	5,178	7,376
Used vehicles		1,406	2,149
Parts, accessories, and other		215	434
Auto vehicle inventory	$	6,799	9,959

The components of vehicle floor plan payables at December 31 are as follows:

		2018	2017
		(Amounts in thousands)	
Vehicle floor plan payable – new/demo	$	6,057	8,366
Vehicle floor plan payable – used		1,001	1,694
Vehicle floor plan note payable	$	7,058	10,060

Vehicle floor plan payable reflects amounts borrowed to finance the purchase of vehicle inventories. In general, the floor plan line is secured by all financed vehicles. Changes in vehicle floor plan payable are reported as non-cash supplemental financing activities in the accompanying Consolidated Statements of Cash Flows.

Our inventory consists of new, used and demonstrator automobiles sold to consumers. Vehicles are carried at lower of cost-or-market. Cost is computed as amortized cost less manufacturer incentives. The vehicle floor plan payable, as shown in the above table, will generally be lower than the inventory cost due to the timing of the sale of a vehicle and payment of the related liability.

Vehicle floor plan facilities are due on demand, but in the case of new vehicle inventories, are generally paid within several business days after the related vehicles are sold. Our manufacturer agreements generally require that the manufacturer have the ability to draft against the new vehicle floor plan facilities so the lender directly funds the manufacturer for the purchase of new vehicle inventory. Vehicle floor plan facilities are primarily collateralized by vehicle inventories and related receivables.

The floor plan note is usually structured to yield interest at a floating rate indexed to the prime rate. The rate for a particular dealership is based on, among other things, the dealership's credit worthiness, the amount of the credit line, the risk rating and whether or not the dealership is in default. Interest on floor plan loans is payable monthly on the first day of each month, accrued on any outstanding principal balance at a floating rate of prime less 0.5%.

At December 31, 2018, the monthly interest rate equaled 5.50%. The amount of the floor plan note as of December 31, 2018 totaled $7,058,000 covering new and used auto vehicle inventory. The Company is able to make advances from time to time and all advances are evidenced by a promissory note. The credit agreement governing the promissory note contains covenants regarding limits on borrowing/curtailment to new, used, aged used and demo auto vehicles. The agreement also contains financial covenants regarding tangible net worth and maximum loan to value position. For the year ended December 31, 2018, BSHI expensed and paid interest on the floor plan note total $340,000, respectively. For the year ended December 31, 2017, BSHI expensed and paid interest on the floor plan note total $324,000 and $342,000, respectively.

(6) Federal Income Taxes

In the accompanying consolidated statements of operations, the provisions for Federal income tax as a percent of related pretax income differ from the Federal statutory income tax rate. A reconciliation of income tax expense using the Federal statutory rates to actual income tax expense follows:

		December 31,	
		2018	2017
		(Amounts in thousands)	
Income tax expense at 21%, 2018, and 34%, 2017	$	5,594	7,123
Change in enacted tax rates		-	2,037
State income tax expense		592	588
Other, net		244	(490)
Income tax expense	$	6,430	9,258

The Company recognized a current tax expense for Federal income tax for the years ended December 31, 2018 and 2017:

		2018	2017
		(Amounts in thousands)	
Current federal tax expense	$	5,909	3,406
Current state tax expense	$	592	588
Income tax paid, net	$	6,842	2,527

Under ASC 740, the primary objective is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. The portion of the tax expense, which is a result of the change in the deferred tax asset or liability, may not always be consistent with the income reported on the statements of operations. At December 31, 2018, the Company has not identified any material uncertain tax positions in accordance with ASC 740.

During 2017, the Company fully utilized the NOL and Alternative Minimum Tax carryforwards. The Company does not record a tax valuation allowance relating to the net unrealized losses on investments, excluding common stocks, because it is more likely than not that these losses would reverse or be utilized in future periods. The Company has the ability and it is the Company’s intent to fully recover the principal, which could require the Company to hold these securities until their maturity; therefore, the Company considers the impairment to be temporary.

On December 22, 2017, the 2017 Tax Act was signed into law. One of the provisions of the 2017 Tax Act reduced the corporate federal income tax rate from 34% to 21% effective January 1, 2018. The SEC staff issued Staff Accounting Bulletin 118 (SAB 118), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 addresses situations where accounting for certain income tax effects of the Tax Act under ASC 740 may be incomplete upon issuance of an entity's financial statements and provides a one-year measurement period from the enactment date to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the following:

- Income tax effects of those aspects of the 2017 Tax Act for which accounting under ASC740 is complete;
- Provisional estimate of income tax effects of the 2017 Tax Act to the extent accounting is incomplete but a reasonable estimate is determinable; and
- If a provisional estimate cannot be determined, ASC 740 should still be applied on the basis of tax law provisions that were in effect immediately before the enactment of the 2017 Tax Act.

We revalued all deferred tax assets and liabilities to recognize the tax rate that is expected to apply when the tax effects are ultimately recognized in future periods. The impact of revaluing the deferred tax assets and liabilities from 34% to 21% was an increase to income tax expense of $2,037,000, as disclosed in the aforementioned table. This revaluation adjustment included a $195,000 reduction related to the deferred tax liability associated with the net unrealized gains on our investment portfolio, which was originally recorded as a component of other comprehensive income and not through the tax provision. The remainder was associated with our other deferred tax assets and liabilities identified in the table below.

Deferred income taxes, which are included in other assets or other liabilities as appropriate, reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As noted above, the federal deferred tax assets and liabilities at December 31, 2017, have been revalued to reflect the new 21% federal corporate income tax rate under the 2017 Tax Act.

The following table represents the tax effect of temporary differences giving rise to the net deferred tax asset established under ASC 740.

		As of December 31,	
		2018	2017
		(Amounts in thousands)	
Deferred tax assets:			
Discount on unearned premium reserve	$	3,613	3,126
Deferred compensation		1,021	865
Unearned fees		752	669
Business combination		731	524
Discount on unpaid claims and claim adjustment expenses		668	458
Allowance for doubtful accounts		217	223
Realized capital losses		278	177
Depreciation and amortization		-	67
Net unrealized losses on investments		1,323	-
Other		-	7
Total deferred tax assets		8,603	6,116
Deferred tax liabilities:			
Deferred policy acquisition costs		3,081	2,522
Depreciation and amortization		447	-
Accrual of discount on bonds		390	303
Net unrealized gains on investments		-	315
Total deferred tax liabilities		3,918	3,140
Net deferred tax asset	$	4,685	2,976

The Company reviews the need of a valuation allowance associated with the deferred tax asset on an annual basis. Under ASC 740, positive evidence, such as taxable income over the most recent three-year period and other available objective and subjective evidence, requires management to conclude that it is “more likely than not” that a portion or all of the deferred tax benefit will be realized. While both objective and subjective evidence are considered, objective evidence should generally be given more weight in the analysis under ASC 740. In making the determination, the Company considered all available evidence, including the fact that the Company had estimated cumulative taxable income for the three years ended December 31, 2018 of approximately $69,978,000. During 2017, the Company fully utilized the remaining portion of the net operating loss carryforward prior to its expiration.

(7) Goodwill and Intangible Assets

Goodwill (insurance operations) and intangible assets, at December 31 consist of the following:

		2018	2017
		(Amounts in thousands)	
Goodwill – insurance operations	$	609	609
Intangible assets	$	1,500	2,993

(a) Goodwill

We test goodwill of our reporting units for impairment annually on December 31 or more frequently when events or changes in circumstances indicate that the carrying value of a reporting unit more likely than not exceeds its fair value.

Under accounting standards, an entity is permitted to first make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it is necessary to calculate the fair value of a reporting unit under the quantitate two-step goodwill impairment test. We completed qualitative annual assessments of any potential goodwill impairment as of December 31, 2018 and 2017. Based on our qualitative assessments, we determined that it was not more likely than not that the fair values of our reporting units were less than their carrying amounts and we were therefore not required to perform the two-step goodwill impairment test for any of our reporting units.

The quantitative goodwill impairment test is a two-step approach. The first step of the quantitative goodwill impairment test requires a determination of whether the fair value of a reporting unit is less than its carrying value. If the fair value of the reporting unit is less than the carrying value, the second step is required, which involves an analysis reflecting the allocation of the fair value determined in the first step (as if it was the purchase price in a business combination). This process may result in the determination of a new amount of goodwill. If the calculated fair value of the goodwill resulting from this allocation is lower than the carrying value of the goodwill in the reporting unit, the difference is reflected as a non-cash impairment loss. The purpose of the second step is only to determine the amount of goodwill that should be recorded on the balance sheet. The recorded amounts of other items on the balance sheet are not adjusted.

In a quantitative impairment test, we estimate the fair value of our reporting units using an "income" valuation approach, which discounts projected free cash flows of the reporting unit at a computed weighted average cost of capital as the discount rate. The income valuation approach requires the use of significant estimates and assumptions, which include revenue growth rates and future operating margins used to calculate projected future cash flows, weighted average costs of capital, and future economic and market conditions. We base our cash flow forecasts on our knowledge of the insurance industry, our recent performance, our expectations of our future performance, and other assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

(b) Intangible Assets

Our principal identifiable intangible asset is the excess of the purchase price over the fair value of the net tangible assets acquired, which has an indefinite life and is tested at least annually on December 31 for impairment. As discussed in Note 1 above, the FASB issued an accounting standard update that permits an entity to first make a qualitative evaluation about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it is necessary to perform a quantitative impairment test.

We completed our qualitative assessment of any potential franchise license impairment as of December 31, 2018. Based on our qualitative assessment, we determined that it was more likely than not that the fair values of our other intangible assets were less than their carrying amounts and we therefore performed a quantitative impairment test.

We performed a quantitative annual impairment test as of December 31, 2017 and management determined that no additional impairment charge was needed. We performed a quantitative annual impairment test as of December 31, 2018, and recorded a $1,493,000 non-cash impairment charge related to the other intangible assets associated with the Auto Group operations with the result of BSHI. This non-cash impairment charge was recorded to reduce the carrying value of the intangible assets to its estimated fair value, resulting in an intangible asset of $1,500,000 on our Consolidated Balance Sheet as of December 31, 2018. The decline in the fair value of intangible assets related to BSHI reflects the underperformance relative to expectations of the auto dealership since our acquisition of it, as well as our expectations for the auto dealership's future prospects. These factors resulted in a reduction in forecasted cash flows and growth rates used to estimate fair value. This non-cash impairment charge is classified as Underwriting and operating expenses in the Consolidated Statements of Income and shown as Impairment of intangible assets in the Consolidated Statements of Cash Flows.

The quantitative impairment test for intangibles with indefinite lives requires the comparison of estimated fair value to its carrying value. We estimate the fair value of our reporting units using an "income" valuation approach, which discounts projected free cash flows of the reporting unit at a computed weighted average cost of capital as the discount rate. The income valuation approach requires the use of significant estimates and assumptions, which include revenue growth rates and future operating margins used to calculate projected future cash flows, weighted average costs of capital, and future economic and market conditions. We base our cash flow forecasts on our knowledge of the insurance industry, our recent performance, our expectations of our future performance, and other assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

(8) Claims and Claim Adjustment Expenses

The following table sets forth information about incurred and paid claims and allocated claim adjustment expense development as of December 31, 2018, net of reinsurance, as well as cumulative claim frequency and the total IBNR liabilities plus expected development on reported claims and allocated claim adjustment expenses included within the net incurred claims and allocated claim adjustment expenses amounts, amounts in dollars except for reported claims.

The information about incurred and paid claims and allocated claim adjustment expense development for the years ended December 31, 2009 to 2017 is presented as supplementary information.

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,										As of December 31, 2018	
Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	(Amounts in thousands)											
2009	$ 126,203	$ 122,955	$ 126,236	$ 132,679	$ 137,596	$ 140,546	$ 139,605	$ 139,545	$ 139,587	$ 139,511	$ -	50,759
2010		102,746	99,155	105,130	109,386	112,741	112,514	112,086	112,380	112,315	126	41,338
2011			103,406	96,943	103,021	106,688	107,227	107,484	107,377	107,570	205	40,048
2012				111,572	104,755	109,837	109,577	109,945	111,186	110,912	65	40,879
2013					108,234	100,055	99,157	99,474	100,478	101,664	38	39,759
2014						108,801	106,117	104,762	105,810	106,793	173	42,488
2015							134,817	133,495	134,263	135,199	354	48,464
2016								145,384	142,779	143,361	1,852	50,881
2017									146,302	141,116	7,326	49,064
2018										175,623	38,110	51,874
									Total	$1,274,064		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance
For the Years Ended December 31,

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
					(Amounts in thousands)					
2009	$ 77,537	110,508	119,537	128,944	136,143	138,634	139,336	139,436	139,488	$ 139,510
2010		60,967	87,785	99,146	107,232	110,391	111,653	111,913	112,028	112,122
2011			54,293	82,754	98,266	103,287	105,930	106,798	107,160	107,255
2012				63,635	93,955	103,269	107,279	108,727	110,122	110,580
2013					59,468	86,738	94,075	97,608	99,743	100,985
2014						63,214	92,485	100,543	104,245	105,901
2015							79,863	118,885	129,666	133,599
2016								92,140	129,826	139,217
2017									85,000	126,944
2018										101,653
									Total	$ 1,177,766
					All outstanding liabilities before 2009, net of reinsurance					152
					Liabilities for claims and allocated claim adjustment expense, net of reinsurance					$ 96,450

The reconciliation of the net incurred and paid claims and allocated claim adjustment expense development tables to the liability for CAE in the consolidated statement of financial position is as follows as of and for the years ended December 31, 2018 and 2017 (amounts in thousands):

		2018
Net outstanding liabilities		
Liabilities for unpaid claims and allocated claim adjustment expenses, net of reinsurance	$	96,450
Reinsurance recoverable on unpaid claims		-
Unallocated claims adjustment expenses		13,558
Total gross liability for unpaid claims and claim adjustment expense	$	110,008

The following is supplemental information about average historical claims duration as of December 31, 2018:

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Private Passenger	57.7%	26.7%	8.6%	4.6%	2.6%	1.2%	0.4%	0.1%	0.1%	0.0%

Significant risk factors exist in the estimation of unpaid claims and claim adjustment expense through exposure to changes in the nonstandard personal auto claims operation. The selected estimates make reasonable provision for extraordinary future emergence of new classes of claims or types of claims not sufficiently represented in the Company's historical base or which are not yet quantifiable, and other risk factors could be identified in the future as having been a significant influence on the Company's unpaid claims and claim adjustment expenses.

The Company completes a full actuarial analysis of unpaid claims and claim adjustment expenses on a quarterly basis for each of its coverage lines. Based upon this actuarial analysis and the new information that becomes available during the quarter, unpaid claims and claim adjustment expenses are re-estimated each quarter.

The following table sets forth the changes in unpaid claims and claim adjustment expenses, net of reinsurance cessions, as shown in the Company's consolidated financial statements for the periods indicated:

		As of and for the years ended December 31,	
		2018	2017
		(Amounts in thousands)	
Unpaid claims and claim adjustment expenses, beginning of period	$	94,487	83,575
Less: Ceded unpaid claims and claim adjustment expenses, beginning of period		57	-
Net unpaid claims and claim adjustment expenses, beginning of period		94,430	83,575
Net claims and claim adjustment expense incurred related to:			
Current period		212,069	178,080
Prior periods		(2,496)	1,101
Total net claim and claim adjustment expenses incurred		209,573	179,181
Net claims and claim adjustment expenses paid related to:			
Current period		131,500	108,984
Prior periods		62,495	59,342
Total net claim and claim adjustment expenses paid		193,995	168,326
Net unpaid claims and claim adjustment expenses, end of period		110,008	94,430
Plus: Ceded unpaid claims and claim adjustment expenses, end of period		-	57
Unpaid claims and claim adjustment expenses, end of period	$	110,008	94,487

The (favorable) unfavorable developments in net loss and loss adjustment expenses incurred, in the aforementioned table, was primarily attributable to the difference in actual and expected claims frequency and severity associated with the various coverages underwritten. As of December 31, 2018, management believes the balance sheet carried reserves made a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and reinsurance agreements.

The following table presents the favorable (unfavorable) development for claims occurring in prior accident years for each region for the years ended December 31, 2018 and 2017:

	December 31,			
	2018		2017	
	(Amounts in thousands)			
Region:				
Southeast (Florida, Georgia, South Carolina, Tennessee and Virginia)	$	1,736	$	(279)
Southwest (Arizona, California, New Mexico, Nevada Utah, and Texas)		735		(846)
Other		25		24
Net favorable (unfavorable) development	$	2,496	$	(1,101)

(9) Reinsurance

(a) Assumed

The Company has, in the past, utilized reinsurance arrangements with various non-affiliated admitted insurance companies, whereby the Company underwrote the coverage and assumed the policies 100% from the companies. These arrangements required that the Company maintain escrow accounts to assure payment of the unearned premiums and unpaid claims and CAE relating to risks insured through such arrangements and assumed by the Company. As of December 31, 2018 and 2017, the balance held in trust in conjunction with reinsurance agreements totaled $141,000 and $139,000, respectively.

The following table summarizes the amounts related to the arrangements as of and for the years ended December 31, 2018 and 2017:

		December 31,	
		2018	2017
		(Amounts in thousands)	
Balances held in escrow	$	141	139
Premiums earned by assumption	$	157	181
Assumed unpaid claims and claim adjustment expenses	$	145	150

(b) Ceded

In 2018 and 2017, the Company maintained catastrophe reinsurance on its physical damage coverage for property claims of $6,500,000 in excess of $1,000,000 for a single catastrophe, as well as $19,500,000 for aggregate catastrophes.

The amounts included in the consolidated statement of operations for reinsurance ceded as of and for the years ended December 31, 2018 and 2017, respectively, are set forth in the following table:

		December 31,	
		2018	2017
		(Amounts in thousands)	
Premiums earned – nonstandard personal auto	$	545	788
Claims and claim adjustment expenses – catastrophe	$	(61)	57

The Company remains directly liable to their policyholders for all policy obligations and the reinsuring companies are obligated to the Company to the extent of the reinsured portion of the risks.

(10) Note Payable

In September 2005, the Company entered into a credit agreement with a commercial bank. Interest, payable quarterly, accrued on any outstanding principal balance at a floating rate equal to the 3-month LIBOR. Subsequent amendments changed the interest rate to 2.25% over the 3-month LIBOR, with no minimum, and a usage fee of 0.25% on the unused line of credit, converted the credit agreement to a revolving loan with a revolving commitment of up to $20,000,000 and a maturity of December 2020. As of December 31, 2018, the interest rate on the line of credit is 5.047%.

The Company is able to draw on this revolving loan and repay in increments of $100,000 without premium or penalty. Borrowings under the revolving loan are collateralized by the common stock of MGA and NSL, and payment is guaranteed by NSL. The credit agreement governing the revolving loan contains covenants regarding limits on levels of subsidiary indebtedness, liens, investments, acquisitions, certain mergers, certain asset sales outside the ordinary course of business, and change in control as defined in the agreement. The agreement also contains financial covenants regarding capital of MGA, consolidated net worth of GANS and the combined ratio of the personal auto operation.

(11) Subordinated Debentures

In January 2006, GANS issued $25,000,000 of 30-year subordinated debentures. They require quarterly interest payments at a floating interest rate equal to the 3-month LIBOR plus a margin of 3.85%. They will mature on March 31, 2036 and are redeemable at GANS' option, in whole or in part, at the liquidation amount of $1,000 per debenture.

In December 2006, GANS issued $18,000,000 of 30-year subordinated debentures. They require quarterly interest payments at a floating interest rate equal to the 3-month LIBOR plus a margin of 3.75%. They will mature on March 15, 2037 and are redeemable at GANS' option, in whole or in part, at the liquidation amount of $1,000 per debenture.

(12) Mortgage Loan Payable

In August 2015, a construction loan was converted into a mortgage loan with the same commercial bank per the loan agreement. The amount of the original loan note was $5,680,000 with interest payable quarterly on any outstanding principal balance at a floating rate equal to 3-month LIBOR plus 2.25%. Principal payments are payable quarterly at $71,000 per quarter. The outstanding mortgage loan amount was $4,757,000 as of December 31, 2018. As of December 31, 2018, the interest rate is 4.648%

The following table summarizes net interest expense recorded and interest payments made in 2018 and 2017:

		2018		2017	
		Net interest expense	Interest payments	Net interest expense	Interest payments
		(Amounts in thousands)			
Note payable	$	242	225	82	56
Subordinated debenture I		1,519	1,555	1,271	1,310
Subordinated debenture II		1,061	1,085	889	912
Mortgage loan payable		219	208	180	176
Total	$	3,041	3,073	2,422	2,454

(13) Shareholders' Equity

The Company has authorized 12,500,000 shares of common stock, par value $.10 per share (the "Common Stock"). Of the authorized shares of Common Stock, 4,785,156 shares were issued and outstanding, and 5,560,232 shares were issued and 5,078,114 shares were outstanding as of December 31, 2018 and 2017, respectively. At December 31, 2017, the Company held 482,118 shares as treasury stock, respectively. At December 31, 2018, the Company cancelled all of the Treasury stock shares.

At December 31, 2018, Goff Moore Strategic Partners, LP ("GMSP") owned approximately 36% of the outstanding Common Stock, James R. Reis owned approximately 15% and Robert W. Stallings owned approximately 30% of the outstanding Common Stock. At December 31, 2017, Goff Moore Strategic Partners, LP ("GMSP") owned approximately 33% of the outstanding Common Stock, James R. Reis owned approximately 13% and Robert W. Stallings owned approximately 27% of the outstanding Common Stock.

On June 19, 2018, the Company announced that its Board of Directors approved a special cash dividend of $2.00 per share ($10,582,228). The special cash dividend was paid on July 11, 2018 to shareholders of record on June 29, 2018 and was charged to Additional paid-in capital. On August 7, 2017, the Company announced that its Board of Directors approved a special cash dividend of $1.50 per share ($7,617,171). The special cash dividend was paid on August 30, 2017 to shareholders of record on August 18, 2017 and was charged to Additional paid-in capital.

The following table reflects changes in the number of shares of Common Stock outstanding for the years ended December 31, 2018 and 2017:

	2018	2017
Shares outstanding		
Balance at beginning of period	5,078,114	4,902,114
Shares issued	213,000	176,000
Shares repurchased	(505,958)	-
Balance at end of period	4,785,156	5,078,114

In April 2017, the Board of Directors of the Company terminated the December 2015 share repurchase plan and authorized a new share repurchase plan. Under the new plan, management was authorized to purchase up to 500,000 additional shares of the Company's Common Stock plus the shares not repurchased under the December 2015 plan, at a price per share not to exceed $18.00. There had not been any repurchases under the new plan as of and for the year ended December 31, 2017.

In February 2018, the Board of Directors of the Company terminated the April 2017 share repurchase plan and authorized a new share repurchase plan. Under the new plan, the Company is authorized to purchase up to 1,200,000 shares of the Company's Common Stock, at a price per share not to exceed $20.00. There had not been any repurchases under the new plan as of and for the year ended December 31, 2018.

In June 2018, the Board of Directors of the Company terminated the February 2018 share repurchase plan and authorized a new share repurchase plan. Under the new plan, the Company is authorized to purchase up to 1,000,000 shares of the Company's Common Stock, at a price per share not to exceed $25.00.

Under the terms of the June 2018 plan, the Company made the following repurchases:

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	(a)	(b)	(c)	(d)
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased Under the Authorized Plans or Programs	Amount of Shares that May Yet Be Purchased Under the Plans or Programs
07/01/2018 – 07/31/2018	259,417	$25.000	259,417	740,583
08/01/2018 – 08/31/2018	246,541	$25.000	246,541	494,042
Total	505,958	$25.000	505,958	494,042

The following table presents the statutory policyholders' surplus for MGA as of December 31, 2018 and 2017, and the statutory net income for MGA for the year ended December 31, 2018 and 2017:

		2018	2017
		(Amounts in thousands)	
Statutory policyholders' surplus	$	109,161	107,338
Statutory net income	$	23,828	18,077

Statutes in Texas restrict the payment of dividends by MGA for any 12 month period to the greater of net income for the preceding year or 10% of surplus as regards policyholders as of the preceding December 31. This amount cannot be greater than unassigned funds (surplus) as of the preceding December 31. At December 31, 2018, $18,595,000 is available for dividend payments next March or later, and MGA can pay an additional $5,233,000 in December 2019. Dividends can be paid with regulatory notification of no objection from the Texas Department of Insurance.

The Company's statutory capital exceeds the benchmark capital level under the Risk Based Capital ("RBC") formula for the insurance company. RBC is a method for establishing the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. As of December 31, 2018, the Company's RBC authorized control level was $22,093,000 and the total adjusted capital was $109,161,000.

(14) Earnings Per Share

The following table sets forth the computation of basic and diluted income per share (amounts in thousands, except for per share data):

		Years ended December 31,	
		2018	2017
Numerator:			
Net income	$	20,209	11,692
Numerator for basic earnings per share – income available to common shareholders		20,209	11,692
Numerator for diluted earnings per share – income available to common shareholders after assumed conversions	$	20,209	11,692
Denominator:			
Denominator for basic earnings per share – weighted average common shares outstanding		4,988	5,005
Denominator for diluted earnings per share – adjusted weighted average common shares outstanding & assumed conversions		4,988	5,005
Basic earnings per share	$	4.05	2.34
Diluted earnings per share	$	4.05	2.34

(15) Benefits

The Company has a 401(k) plan for the benefit of its eligible employees. The Company made contributions to the plan that totaled $600,000 and $486,000 for 2018 and 2017, respectively.

As an integral part of the recapitalization consummated in January 2005, the Company entered into new employment agreements with Messrs. Stallings and Reis and an amended employment and related agreements with Mr. Glenn W. Anderson, which were approved by shareholders on January 18, 2005. Effective September 2015, the Company amended Mr. Anderson's agreement solely to change his base annual salary, and amended and restated the employment agreements with Messrs. Stallings and Reis to change their base annual salaries and to align their agreements more closely with Mr. Anderson's agreement.

The terms of the employment agreements with Messrs. Stallings and Reis are each three years, and are automatically renewed for successive one year terms on the same terms and conditions on each anniversary of the effective date, unless either party gives notice of an intention not to renew.

The term of Mr. Anderson's employment is four years and is automatically extended by an additional year on the same terms and conditions on each anniversary of the effective date (so that, as of each anniversary of the effective date, the term of the employment agreement remains four years), unless either party gives notice of an intention not to extend the term.

The Company entered into an executive severance agreement in 2002 with Daniel J. Coots. The agreement generally provides that the Company shall pay the executive, upon termination of the employment of the executive by the Company without cause or by the executive with good reason during the term of the agreement, a lump sum severance amount equal to the base annual salary of the executive as of the date that the executive's employment with the Company ends. The executive severance agreement does not supersede change in control agreements or any other severance agreements the employee may have with the Company.

The Company entered into an executive severance agreement in October 2015 with Drew F. Nachowiak, the General Counsel of the Company. The agreement generally provides that the Company shall pay the executive, upon termination of the employment of the executive by the Company without cause or by the executive with good reason during the term of the agreement, an amount equal to the base annual salary of the executive as of the date that the executive's employment with the Company ends. Such amount is payable over a 12 month period. The executive severance agreement does not supersede a change in control agreement or any other severance agreement the employee may have with the Company.

In 2011 the Company instituted a deferred compensation plan for certain key employees. This plan had a five-year performance period with annual performance objectives based on the Company achieving minimum gross premiums written targets in 2011 through 2015 and target operating earnings before tax in 2011 through 2015. In 2017, this deferred compensation plan was further amended for all participants to add an additional year (2020) and to recalibrate the performance targets, as permitted by the agreements. In 2018, this deferred compensation plan was further amended for all participants to add an additional year (2021). The amended plan agreements has a performance term from 2014 through 2021 with annual performance objectives based on the Company achieving minimum gross premiums written targets and target operating earnings before tax (attributable to the private passenger automobile insurance business, as determined per the agreement). Compensation expense is recognized based on achieving individual year performance targets or on achieving cumulative performance results. Based on the results of the 2018 and 2017 fiscal year, compensation expense was recorded, as salary expense, in the amount of $1,113,000 and $1,275,000, respectively.

The compensation is recognized as an expense in the current year and deferred for payment five years later under terms of the plan. In addition, during 2015 separate deferred compensation agreements were entered into with certain designated key staff employees. Compensation pursuant to these agreements is recognized based on the key individual continuing each year in that designated key employee capacity. The compensation is recognized as expense in the current year and deferred for payment five years later under the terms of the plan. Based on the results of the 2018 and 2017 fiscal year, compensation expense was recorded, as salary expense, in the amount of $100,000 and $130,000, respectively.

In the second quarter of 2018, the Board of Directors granted stock awards totaling 203,000 shares to five of the Company's officers. The awards were fully vested upon grant and $4,313,750 was recognized as non-cash compensation expense in Underwriting and operating expense based on fair value of $21.25 per share, which was the closing price of our Common Stock on the date of grant. Additionally, the Board of Directors granted stock awards totaling 10,000 shares to the two independent directors of the Company. The awards were fully vested upon grant and $212,500 was recognized as non-cash director fees expense in Underwriting and operating expense based on fair value of $21.25 per share, which was the closing price of our Common Stock on the date of grant.

In the second quarter of 2017, the Board of Directors granted stock awards totaling 166,000 shares to five of the Company's officers. The awards were fully vested upon grant and $2,863,500 was recognized as non-cash compensation expense in Underwriting and operating expense based on fair value of $17.25 per share, which was the closing price of our Common Stock on the date of grant. Additionally, the Board of Directors granted stock awards totaling 10,000 shares to the two independent directors of the Company. The awards were fully vested upon grant and $172,500 was recognized as non-cash director fees expense in Underwriting and operating expense based on fair value of $17.25 per share, which was the closing price of our Common Stock on the date of grant.

(16) Commitments and Contingencies

Legal Proceedings

In the normal course of their operations, the Company and its subsidiaries are named as defendants in various legal actions seeking monetary damages, including cases involving business disputes and those involving allegations that MGA wrongfully denied insurance claims and is liable for damages. Some cases involving insurance claims seek amounts significantly in excess of our policy limits. In the opinion of the Company's management, based on the information currently available, the ultimate liability, if any, resulting from the disposition of such litigation will not have a material adverse effect on the Company's consolidated financial position or results of operations. However, in view of the uncertainties inherent in such litigation, it is possible that the ultimate cost to the Company might exceed the reserves we have established by amounts that could have a material adverse effect on the Company's future results of operations, financial condition and cash flows in a particular reporting period.

In August 2012, a policyholder of MGA was involved in an auto accident in Georgia resulting in medical treatment for the claimant, Ms. Yolanda Castano-Castano. Following the accident, MGA offered to settle the matter with the claimant for its policyholder's available limits of liability, $25,000. MGA retained defense counsel to oversee conclusion of the settlement following MGA reaching an oral agreement to settle with the claimant's counsel. The defense firm apparently failed to finalize the settlement within the time period required by claimant's written demand. As a result, MGA's tender of policy limits was rejected by the claimant's counsel. The claimant then filed suit against the policyholder. In March 2017, the case was tried, and the plaintiff received a jury verdict against MGA's insured in the amount of $700,000. MGA appealed the judgment on behalf of its insured. In May 2018, the Georgia Court of Appeals partially ruled in favor of MGA's insured, vacating the verdict and remanding the case for a new trial. MGA appealed to the Georgia Supreme Court with regard to two additional points of appeal. In February 2019 the Georgia Supreme Court declined to hear the appeal of the other two arguments and remanded the case to the trial court. No claim has ever been brought against MGA with respect to this matter. MGA intends to pursue a claim against its initial defense firm if MGA ultimately pays any amount in excess of its underlying policy limits. While such litigation is inherently unpredictable, the Company believes that the claim is without merit and intends to continue to defend its insured vigorously. As a result, the Company is unable to reasonably estimate a possible range of losses, if any, arising from the litigation.

In May 2011, a policyholder of MGA was involved in an auto accident in New Mexico resulting in medical treatment for the claimant, Ms. Amanda Jones-Worthington. Following the accident, MGA requested medical records from the claimant, but received only some of them. Upon finally receiving sufficient medical information, MGA offered to settle the matter with the claimant for its policyholder's limits of liability, $25,000. Settlement of the claim was complicated by the insured being criminally charged for driving under the influence. MGA's policy limits tender was rejected by the claimant, and the claimant filed a lawsuit against the policyholder. In January 2014, the case was tried and the plaintiff received a jury verdict against MGA's insured in the amount of $760,000 ($360,000 in compensatory damages and $400,000 in punitive damages). MGA's auto insurance policies specifically exclude liability for punitive damages. In March 2017, MGA's insured partially assigned to the plaintiff his interest in a claim against MGA and his defense counsel. The plaintiff then filed suit in New Mexico state court against MGA and the defense counsel alleging legal malpractice and insurance bad faith, among other claims. MGA reported this claim to its errors and omissions carrier, and the carrier has accepted the defense of the claim. MGA's errors and omissions insurance policy provides for a $1,000,000 retention. Court-ordered mediation of this case occurred in early May 2018 and was unsuccessful; another mediation occurred in March 2019 and was also unsuccessful. It is anticipated that the case will be tried in the fall of 2019 if the parties are unable to settle it before then. While such litigation is inherently unpredictable, MGA believes that the complaint against it is without merit and intends to continue to defend itself vigorously. As a result, the Company is unable to reasonably estimate a possible range of losses, if any, arising from the litigation.

Off-balance-sheet-risk

The Company does not have any financial instruments where there is off-balance-sheet-risk of accounting loss due to credit or market risk. There is credit risk in the premiums receivable and reinsurance balances receivable of the Company. At December 31, 2018 and 2017, the Company did not have any claims receivables by individual reinsurers that were material with regard to shareholders' equity.

(17) Leases

The Company entered into a ten-year lease agreement for the home office in May of 2005. The Company and the landlord have amended the lease several times, including once during 2018. As a result of the amendments, the Company leases a total of 107,934 square feet of office space and the lease has been extended until September 2028. Under the terms of this lease, the Company has the option of terminating the lease agreement at the end of September 2024, subject to payment of a penalty. The Company entered into an eleven-year lease agreement for the Florida office in May of 2010 that includes rentable office space of 22,480 square feet. Under the terms of this lease, the Company has the option of renewing for two additional five year periods through the year 2031.

The following table summarizes the Company's lease obligations as of December 31, 2018 (amounts in thousands).

Year		Amount
2019		3,710
2020		3,807
2021		3,039
2022		2,894
2023		2,959
Thereafter		14,459
Total	$	30,868

Rental expense is recognized over the term of the lease on a straight line basis for the Florida and the home office is expensed as incurred. Rental expense for the Company was $3,436,000 and $2,506,000 for the years ended December 31, 2018 and 2017, respectively.

(18) Transactions with Related Persons

The Company has evaluated transactions with related persons from the balance sheet date through May 1, 2019, the date at which the consolidated financial statements were available to be issued, and determined that there are no other items to disclose.

(19) Subsequent Events

Note Payable

On April 18, 2019, the Company paid down the outstanding balance of $7,416,000 as of December 31, 2018 by $5,416,000. The loan does not mature until December 2020.

The Company has evaluated subsequent events from the balance sheet date through May 2, 2019, the date at which the consolidated financial statements were available to be issued and determined that there are no other items to disclose.